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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Notice of Market-Dominant
Price Adjustment Docket No. R2013-10

PUBLIC REPRESENTATIVE COMMENTS

(October 31, 2013)

I. EXECUTIVE SUMMARY

The Postal Service has made an institutional decision to mandate the use of Full Service IMb. However, it has designed prices that ignore the impact of this requirement. As such, the prices filed in this docket fail to meet the requirements of the PAEA. 39 USC § 3622(d)(1)(A). As discussed below in these comments, the Commission should reject the current proposal and require the Postal Service to file new prices that account for the Full Service Mandate.

The Public Representative respects the institutional benefits the Postal Service hopes to realize with ubiquitous Full Service IMb implementation. However, if the Commission approves the Docket No R2013-10 prices without accounting for the Full Service IMb requirement, the Postal Service will have successfully rendered the Price Cap limitation in the PAEA moot.

The Postal Service states that the "cap does not apply to additional sources of revenue that might arise from changes in mailing rules."[1] The PAEA was designed to allow the Postal Service to increase prices subject to the limit of the annual change in the CPI-U. If the Postal Service can increase revenue through changes in mailing rules,

[1] Response of the United States Postal Service to Chairman's Information Request No. 3, Questions 1-2, and 6-7, (Response to CHIR No. 3), October 24, 2013, Question No. 1 at 2. http://www.prc.gov/Docs/88/88111/CHIR%20No.3.%20First%20Response%20FINAL.pdf at 2.

the Postal Service will be able to contrive, without limit, mailing rules that can drive mailers to more costly rate categories or classes of mail so that revenues will increase significantly without regard to the price cap limitations. The Commission should reject the current rate increase filing and provide the Postal Service the opportunity to select a course of action consistent with the Commission's rules.

Other issues discussed below include details of how the proposed Standard Mail Flats prices are projected to impact the ongoing subsidy for that category of mail. Also, the Periodicals prices designed by the Postal Service represent another missed opportunity to implement solutions to Periodicals' worsening net revenue results. The introduction of Flat Sequencing System (FSS) prices and mailing preparation requirement are also problematic. Metered Mail pricing is a step in the right direction.

II. PRICE CAP AND IMB RULE

A. Introduction and Background

On September 26, 2013, the Postal Service filed a "Notice of Market Dominant Price Adjustment."[2] The Postal Service characterized the following items as the notable or novel features of this price adjustment:

- The calendar of promotions and incentives;
- The introduction of a Metered Mail price in First-Class; and
- The introduction of FSS prices in Standard Mail.

On September 26, 2013, the Postal Service also filed an exigent price increase request in Docket No. R2013-11, "Renewed Exigent Request of the United States Postal Service in Response to Order No. 1059." In that docket, the Postal Service also fails to address the Full Service IMb requirement. Further complicating matters, the

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[2] United States Postal Service Notice of Market-Dominant Price Adjustment, September 26, 2013 (Notice).

prices included in the Docket No. R2013-10 price adjustments are used as the "base prices" in the Docket No. R2013-11 price change.

On September 30, 2013, the Public Representative filed in this case a "Motion for Issuance of Information Request." The motion explained that the Postal Service had not adequately addressed the Full Service IMb requirement in its filing. The Chairman's Information Request No. 3 (CHIR No. 3) was issued on October 18, 2013 essentially requesting the Postal Service to respond to the questions suggested by the Public Representative's motion.[3]

On October 25, 2013, the Postal Service began to file responses to CHIR #3, which asked the Postal Service to detail the impact of the Full Service Automation requirement. The Public Representative had previously indicated to the Postal Service that the impact of the Full Service IMb would be a material issue in this docket.[4] Thus the Postal Service was aware that the Full Service IMb requirement would be in issue here. The Postal Service's failure to follow the Commission's rules regarding adjustments to billing determinants when price classifications change lead to a straightforward conclusion: the Commission should reject the Postal Service's filing which would present the Postal Service with three options:

- The Postal Service can refile for the CPI Price Adjustment including the impact of the Full Service IMb Automation Requirements;
- The Postal Service can refile the CPI Price Adjustment and delay implementation of the Full Service IMb requirements; or
- The Postal Service can incorporate the price increase requested in this docket into its request in the exigency case in Docket No. R2013-11.

The Public Representative respects the precarious financial position of the Postal Service. The PAEA is designed to limit to the CPI the amount by which the Postal Service can increase prices, and the Postal Service has wide discretion to design prices

[3] On October 1, 2013, the Commission, together with other parts of the Federal Government, was shut down due to a lapse in appropriations. On October 16, 2013, the Commission reopened.

[4] *See* Docket No. R2013-6, Public Representative Comments, May 6, 2013 at 12-15.

that comply with that limitation. The Postal Service's decision to ignore the impact of its IMb rules change as well as the Commission's rules in this docket has placed the Commission in a difficult position, especially given the Postal Service's acknowledged liquidity issues. But, financial difficulties do not override the price cap limitation in the PAEA.

The following comments will detail why ignoring the effects of the Full Service IMb rule in this rate adjustment proceeding would be a violation of the price cap. The comments will also discuss the notable price design features of that proposal.

B. Ignoring the Full Service IMb Rule Requirement in this Rate Adjustment Would Violate the Price Cap.

On April 24, 2012, the Postal Service published an "Advance Notice of Implementation of Full-Service Intelligent Mail Required For Automation Prices" in the Federal Register.[5] On January 24, 2014, mailers that enter presorted volume with a Basic Intelligent Mail barcode (IMb) will be eligible for automation prices. On January 27, 2014, the same exact mailing will be required to pay non-automation rates, which are significantly higher in all classes. The Postal Service noted "this proposal would require significant changes for mailers who currently benefit from automation discounts."[6]

In the short history of the PAEA, there have been many analogous situations. In Docket No. R2013-1, the Postal Service changed the pricing structure of Carrier Route parcels.[7] The same mailings, after the classification change, were priced differently. The Postal Service incorporated these changes and made reasonable adjustments to

[5] Implementation of Full-Service Intelligent Mail Requirements for Automation Prices, 77 FR 63771-63781, October 17, 2012. http://www.gpo.gov/fdsys/pkg/FR-2012-04-20/html/2012-9537.htm

[6] *Id*. http://www.gpo.gov/fdsys/pkg/FR-2012-10-17/html/2012-25551.htm

[7] Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, Order No. 1541, November 16, 2012 at 57-59.

the billing determinants to account for the volume as it existed in the system prior to the classification change. In past pricing changes, the Postal Service has consistently incorporated classification changes into notices of price adjustments. The concept is straightforward, if the same mailing has to pay a different price, a classification change has occurred.

The Full Service IMb requirement is an effective change in classification that will have a revenue impact. In Order No. 43, which established the rules implementing the PAEA, the Commission stated:

> The Commission concludes that one of Congress's main motives in enacting the PAEA was to simplify and expedite the setting of postal rates. It further concludes that Congress intended to give the Postal Service wide latitude in designing specific rates and rate relationships, expecting that the Commission would alter those decisions only where disregard of particular statutory standards is clear.

The Postal Service had disregarded the statutory standard that an increase in prices not exceed the CPI-U.

1. The requirement that automation pieces contain a full service barcode will lead to price increases.

The Postal Service has consistently acknowledged the cost to mailers of adopting Full Service IMb. The Postal Service has, admirably, attempted a range of incentives to increase participation in Full Service IMb. Mailers currently receive a discount for including the Full Service barcode. Even with these incentives, only 65 percent of volume currently participates in Full Service IMb. Reports from the Postal Service suggest that participation is limited to 765 mailers, suggesting there is a long tail of mailers who have not been incentivized to participate.[8] It is economically rational to assume that for non-participating mailers the cost of participation is higher than the

[8] *See* Monthly Progress Report on Full-Service Intelligent Mail Participation and Compliance by Commercial First-Class Mail and Standard Mail Customers, February 27, 2013 at 2.

current benefit. The impending requirement will significantly shift the cost benefit calculation of participation. The current 1 cent discount in Standard Mail will evolve into a 3 to 8 cent penalty.

The Postal Service states that the "majority of non-Full-Service mailers contacted during current outreach efforts plan to move to Full-Service by the end of January."[9] The Postal Service adds that historical experience suggests that the majority of mailers will implement Full Service IMb when it is mandated. It points out that the 2012 mandated change in barcode technology led to an increase in adoption from 81 percent to 95 percent. *Id*. But even if 5 percent of mailers do not adopt Full Service IMb, the price cap will be exceeded. *Id*.

2. The backwards weighted volume index is a settled issue/

The Postal Service argues that, as in past instances of barcode technology changes, most mailers will adapt to the new requirements, and will not face a price increase. The Postal Service provides no evidence that Full Service IMb adoption will proceed as past changes have. With regard to Full Service IMb, there is three years of empirical evidence suggesting that mailers face significant costs to implement the technology.

It is well settled that the backwards weighted volume index is to be used. That means revisions to the billing determinants are required when the revisions are known and measurable. The Postal Service has implicitly used a forward weighted index with respect to the penalties for failure to adopt Full Service IMb, and assumed that there will be no revenue impact. The Postal Service has not provided these calculations directly, but the implication is clear.

The historical volume of non IMb mail for the test year is known. The Postal Service must recognize this known change to its mailing requirements, and may not assume any change in mailer behavior. The impact of the rule change on test year

[9] Response to CHIR No. 3, Question 1 at 5.

volumes can be calculated without estimating future mailer behavior as evidenced by the Postal Service's response to the Chairman's Information Request #3. In this case, the mandate is known and, consistent with Commission rules, the effect can be accounted for using available billing determinants without assuming any change in mailer behavior. The Postal Service should have filed price cap calculation spreadsheets in this docket that recognized, as required by the Commission's rules, appropriate adjustments in the billing determinants.

3. The postal service's argument that Domestic Mail Manual (DMM) changes are not price changes is wrong and perilous ─ price changes caused by DMM changes are still price changes

In response to CHIR No. 3, the Postal Service stated that the "cap does not apply to additional sources of revenue that might arise from changes in mailing rules that the Postal Service is statutorily authorized to issue." Response to CHIR No. 3, Question 1 at 2. The Postal Service added that the "Postal Service interprets 39 CFR §3010.23(d) to require billing determinant adjustments when a Mail Classification Schedule (MCS) change moves mail from one category to another, regardless of mailer behavior. Changes to DMM standards are different." When the Commission was designing price cap rules, the Postal Service discussed this issue with clarity:

> Specifically, when some existing mail shifts from one category to a second category due to changes in mail preparation requirements, the solution is to create three volume groupings: (1) volume that starts in the first category and stays there, (2) volume that starts in the first category and shifts to the second category, and (3) volume that starts in the second category and stays there. When applying prices to these three groupings, volume in the first grouping is always charged the price applicable to the first category, volume in the third grouping is always charged the price applicable to the second category, and *volume in the second grouping is charged* the price applicable to the first category under existing rates, but *the price applicable to the second category under the proposed rates*. Such a process achieves the exact same objective sought by ANM/MPA – a fair process for the evaluation of compliance with the cap – but avoids the troubling prospect of allowing the volume weights to vary. The volume of each

> grouping remains the same at either set of prices. The identification of the contents of the three groupings in this example would constitute an illustration of an "adjustment" to historical billing determinants. (Emphasis supplied.)[10]

The Postal Service there acknowledged the potential impact of mailing preparation rules (DMM changes) on the price cap calculation. Mailers strenuously argued that the Commission should incorporate mailing preparation rule changes into the price cap calculations. With the above quote, the Postal Service alleviated the need for the Commission to develop complex procedures associated with adjusting for DMM changes.[11] The core issue is simple –if mailers cannot pay the same price for the same mailing, a classification change has caused a price increase. This is the case with the Full Service IMb mandate.

C. The Postal Service's Allusion to July Implementation Is An Illusion.

In response to Question 1 in CHIR No. 3, the Postal Service states that "no assessments will be made as a result of any full-service electronic verification until July 1, 2014." The statement is true, but misleading. There are many components of Full Service IMb implementation. Not only are mailers to include Full Service barcodes on all automation pieces, but they are also required to submit electronic documentation (eDoc) to provide the Postal Service with information on the unique barcodes contained in each mailing. Mailers are also required to have CSAs (Customer Supplier Agreements) and make dropship appointments through FAST.[12] It is, in part, the

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[10] Docket No RM2007-1, Regulations Establishing System of Ratemaking, Reply Comments of the United States Postal Service on the Second Advance Notice of Proposed Rulemaking, July 3, 2007 at 3.

[11] *Id*. at 29. http://www.prc.gov/Docs/57/57813/ReplyComments_FINAL.pdf, http://www.prc.gov/Docs/56/56879/Classification_Comments_FINAL.pdf at 12

[12] *See,* Full-Service eDoc Verification Using MicroStrategy, U. S. Postal Service, December 16, 2010, IMRelease 5. http://ribbs.usps.gov/intelligentmail_presentations/documents/tech_guides/MailingDataQualityReport.pdf

panoply of requirements associated with full service adoption that has slowed mailer participation. When the Postal Service states that "no assessments will be made," it details that mailers will not be punished for having "bad" or "non-unique" full service barcodes until July 1, 2014. The Postal Service is detailing how no additional, after the fact, steps will be taken to increase revenue due to failure to properly implement Full Service. However, the current process of ensuring that mailpieces meet automation requirements will still be used. Mailers that enter volume with Basic IMb will be penalized starting January 26, 2014.[13] Acceptance clerks will be checking to ensure the barcode is Full Service IMb. The assessments that the Postal Service is alluding to are after the fact penalties for errors such as non-unique barcodes, or incomplete or inaccurate nesting. While the Postal Service is allowing mailers a period of time to improve the accuracy of the full service process, mailers will be penalized for using Basic barcodes starting day 1. From there, the penalties will increase in scope.

D. The Postal Service's Attempt to Calculate Price Cap Impact of Using Historical Billing Determinants with Full Service IMb Non-Compliance Overstates Impact.

In Question No. 2 of CHIR No. 3, the Commission requested the Postal Service to provide Full Service IMb volume by rate category. The Postal Service's response leaves a considerable amount unanswered. The Postal Service did not provide Full Service volume by rate category. The Postal Service assumed that each rate category in a product, *e.g.* Mixed AADC and 5-Digit, contained the same percentage of full service volume. In First-Class, the Postal Service assumed that 65 percent of Mixed AADC and 65 percent of 5-Digit had Full Service IMb barcodes in the hybrid year. While this is a reasonable assumption if the accurate data is not available, it is troubling. Full Service IMb is intended to provide the Postal Service with a host of insights. Yet

[13] *See* Verification Procedures for Full-Service Automation Mailings January 14, 2013, United States Postal Service. http://pe.usps.com/text/dmm300/707.htm#1059365 , https://ribbs.usps.gov/intelligentmail_guides/documents/tech_guides/FullServiceVerificationJan2014.pdf

the Postal Service seems to be informing the Commission that it does not know how much Full Service IMb was sent by rate category.

The second problem with the Postal Service's response involves interpretation of the new mandate. In Periodicals, the Postal Service has calculated that the price increase including the impact of the full service mandate is 11.323 percent.[14] The vast majority of this increase is due to the penalty associated with Carrier Route Flats. The Postal Service calculates that 1.2 billion Carrier Route flats will have to be mailed at non-automation 5 digit prices if mailers do not adopt full service, an 11 cent increase in price (55 percent increase). According to Postal Service mailer outreach, Periodical Carrier Route Flats are not required to contain a full service barcode.[15] Excluding the impact of penalties on Carrier Route Flats, the alleged 11.323 percent increase is actually, 3.069 percent, or 1.4 percent greater than the CPI cap. Similarly, mailer outreach suggests that Standard Mail Carrier Route Flats are "Eligible, not Required." If that is the case, the Postal Service response to CHIR No. 3 Question 2 is also inaccurate with respect to Standard Mail.

E. There are Many Sets of Prices the Postal Service Can Choose Among, But the Prices Proposed in Docket No. R2013-10 are Not a Choice.

Periodicals is a great example of the Postal Service's pricing flexibility as it relates to the IMb requirement. At the Mixed AADC, AADC, 3 digit, and 5 digit presort levels there are automation and non-automation machinable prices. The price difference between automation and non-automation is roughly 2 cents for each presort level. As with all Periodicals worksharing passthroughs, there is little relationship between the cost avoidance to the Postal Service and the discount provided to the mailer. If the Postal Service rationalized the price difference between the automation and non-automation rates, the impact of the mandate would disappear entirely. The

[14] http://www.prc.gov/Docs/88/88111/ChIR3.Qu2.Response.PER.xls

[15] https://ribbs.usps.gov/periodicalsfocus/documents/tech_guides/greatlakes/sept2013meeting/HoytPresentation.pptx at 6.

Postal Service's institutional preference for barcoded mail is understandable, but is not based on cost avoidances. In each class, the large impact of the mandate is due to large price differences between automation mail and non-automation mail. Interestingly, "anomalous" cost data has long suggested that non-automation volume cost less for the Postal Service to process than automation volume. The Postal Service could have easily designed rates that incorporated the impact of the full service mandate and also allow for increased prices within the price cap. That the Postal Service has not chosen to do so should not force the Commission to approve price adjustments that disregard statutory standards.

F. If the Postal Service Wants to Implement the Docket No. R2013-10 Prices as Proposed, the Full Service IMb Requirement Must Be Delayed.

The solution to this problem is simple: delay. The only way for the Postal Service to implement the Docket No. R2013-10 prices is to remove the full service mandate. The Postal Service is currently petitioning the Commission for an exigent rate increase, and it could argue that the full service mandate and the Docket No. R2013-10 prices should be part of that docket as well. Alternatively, the Postal Service could choose to redesign the prices proposed in this docket to conform to Commission rules. As the PAEA envisioned, the Postal Service has wide latitude when designing prices.

III. OTHER ISSUES

A. The Proposed Standard Mail Flats Prices Will Not Impact the Ongoing Subsidy.

1. The Public Representative cannot independently assess the Postal Service's estimate.

In the FY 2010 ACD, the Commission noted that the Postal Service had lost $577 million from Standard Mail Flats in FY 2010, and $1.4 billion from FY 2008 to FY 2010. In FY 2011, the Postal Service lost an additional $643 million.[16] In FY 2012, the

[16] *See* FY 2012 ACD, Table VII-17 at 108.

cost coverage of Standard Mail Flats increased for the first time since it became a Product measured in the CRA, from 79.5 percent to 80.7 percent. Due to a decrease in volume, the loss in contribution from Standard Mail Flats decreased from FY 2011 to FY 2012 by over $115 million to a negative $528 million.

For the price adjustment in this docket, the Postal Service has designed prices that increase the revenue from Standard Mail Flats by 1.809 percent, or 1.067 times the CPI. The Postal Service notes that the proposed increase is larger than the schedule "which the Commission approved in its 2012 Annual Compliance Determination." Postal Service Notice at 24. On October 29, 2013, the Postal Service filed revisions to the Standard Mail Workpapers. Further, as of October 30, 2013, (yesterday) the Postal Service had not responded to CHIR No. 3, Question 4, which requested information on the price cap impact of the Postal Service's promotions and incentives. Given the incomplete nature of the Postal Service's spreadsheets, the Public Representative cannot independently assess the Postal Service's estimate that the Standard Flats increase is 1.809 percent.

2. The Postal Service Estimates that the Flats Subsidy will be $322 Million in FY 2013.

In Docket No. R2013-1, the Commission requested the Postal Service to provide analysis of how the proposed Standard Mail Flats prices would impact the ongoing cross subsidy between profitable Standard Mail Products and Standard Mail Flats.[17] In response, the Postal Service filed a workbook with projections of FY 2012 and FY 2013 finances.[18] The Postal Service's workbook contained estimates that "Standard Mail Flats' cost coverage will increase to 83 percent in FY 2012 and 86 percent in FY 2013."[19] In Docket No. R2013-10, the Commission again requested the Postal Service to analyze the impact of the proposed prices on the Flats subsidy. The Postal Service

[17] Response to CHIR No. 3, Question 1b at 2-3. http://www.prc.gov/Docs/85/85423/Response%20to%20CIR%201.pdf at 2.

[18] *See* "StandardFlats.xls, October 23, 2012. http://www.prc.gov/Docs/85/85423/StandardFlats.xls

[19] http://www.prc.gov/Docs/85/85423/Response%20to%20CIR%201.pdf at 2

responded, "Postal Service estimates that the combination of the proposed price increase and anticipated costs savings will increase Standard Mail Flats' cost coverage to 87 percent in FY2013 and 89.7 percent in FY 2014.[20] Similarly, the unit contribution shortfall for Standard Mail Flats is estimated to fall to 5.8 cents in FY2013 and 4.5 cents in FY2014."[21]

The following table details the Postal Service estimates of Standard Mail Flats cost coverage in Docket Nos. R2013-1 and R2013-10.

R2013-1 Standard Mail Flats Estimates	Revenue (in millions)	Volume (in millions)	Attributable Cost (in millions)	Contribution $ (per piece)	Cost Coverage	Subsidy (Revenue-Cost)
FY 2012 AR	$2,208	5,908	$2,670	-$0.078	82.7%	-$462
FY 2013 AR	$2,116	5,524	$2,457	-$0.062	86.1%	-$340
R2013-10 Standard Mail Flats Estimates						
FY 2012 Actual	$2,230	5,940	$2,762	-$0.090	80.7%	-$532
FY 2013 AR	$2,146	5,594	$2,468	-$0.058	87.0%	-$322
FY 2014 AR	$2,186	5,566	$2,437	-$0.045	89.7%	-$251

As detailed in the table, the Flats subsidy was $70 million larger in FY 2012 than the Postal Service estimated on October 23, 2012. In this docket, the Postal Service states that it expects the Flats subsidy to decrease to $322 Million in FY 2013. The Public Representative is hopeful that the Postal Services estimates will prove accurate in the FY 2013 ACD.

B. The Proposed Periodicals Prices Are Another Missed Opportunity to Leverage its Pricing Flexibility.

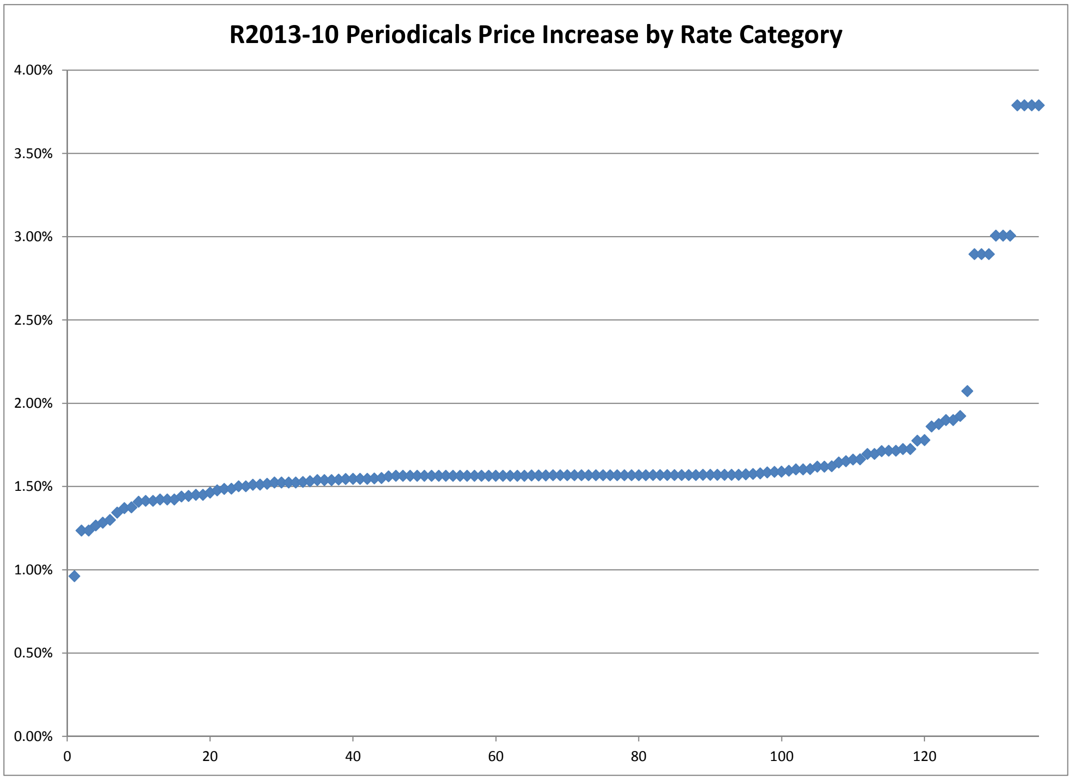
In the FY 2012 ACD, the Commission recommended that "the Postal Service leverage its pricing flexibility to improve Periodicals pricing options and worksharing passthroughs to incent more efficient mailer preparation and increase contribution from Periodicals."[22] The Commission also noted that the "Postal Service needs to take initiative to identify and implement solutions to Periodicals' worsening net revenue

[20] Response to CHIR No. 3, Question 6,

[21] Response to CHIR No. 3, Question 6 at 9. http://www.prc.gov/Docs/88/88111/CHIR%20No.3.%20First%20Response%20FINAL.pdf at 9.

[22] FY 2012 ACD at 100.

results."[23] The following chart details the percentage increase for the 136 individual rate categories in Outside County Periodicals.



As detailed in the graphic, 111 of the 136 rate categories have price increases of less that 1.66 percent, the class average. The revenue from the 25 rate categories that receive a higher than average increase is $3.6 million dollars, or 0.2% of the total revenue of the class.

The following table details the price increase by rate element.

Element	Average Price Increase
Pounds	1.57%
Pieces	1.70%
Bundles	1.62%
Sacks	1.64%
Pallets	1.59%

[23] FY 2012 ACD at 96.

The Postal Service has not made any attempts to "leverage its pricing flexibility" to "implement solutions to Periodicals' worsening net revenue results." In its Notice, the Postal Service states that for "this price increase, the Postal Service uses the flexibility of the container-bundle-piece price structure to limit the extent to which price increases for individual publication differ from the average." Postal Service Notice at 54.

C. FSS Prices Are A (Slow) Step in the Right Direction.

In the current iteration of the Postal Service's Flat Strategy, which is currently in draft form, the acronym "FSS" appears 159 times in 45 pages.[24] Much like the Full Service IMb program, the Postal Service has made an institutional decision that the FSS is the "ultimate in flats automation."[25] Developing prices that encourage mailers to efficiently prepare mail for the FSS is a good step forward for the Postal Service. There are two key issues with the FSS changes in Docket No. R2013-10. First, the pricing of mail in FSS and Non-FSS zones continues to be un-addressed by the Postal Service. Second, the requirement that mail destinating in FSS zones be prepared to specific FSS standards has not been sufficiently addressed by the Postal Service.

1. FSS Zone Pricing

In its Notice in this case, the Postal Service states that it is "proposing FSS pricing for presorted flat-shaped mail pieces in Standard Mail, Outside County Periodicals, and Bound Printed Matter Flats that destinate in FSS zones."[26] The further discussion of FSS pricing in each of those classes details:

- Standard Mail

[24] https://ribbs.usps.gov/industryoutreach/documents/tech_guides/FlatsStrategyDRAFT.pdf (Flats Strategy).

[25] Flats Strategy at 12.

[26] Notice at 16.

In Standard Mail the FSS price is the current price, with an optional 0.1 cent discount for DFSS pieces in DFSS schemes on DFSS pallets. In the file "CAPCALC-STD-R2013-10_Errata.10.29.13.XLS," the Postal Service estimates that 57 million Standard Mail pieces were eligible for such a discount if it had been offered last year. In Standard Mail, FSS pricing means offering $57,355 in discounts for mail designed to maximize FSS efficiency and reduce "non-value added work."[27]

- Periodicals

In Periodicals, the FSS price will be the same as the non-FSS price. This is true for FSS pounds, where there is a specific FSS price that is the same as the non-FSS price. This is true for FSS bundles, which are the same price as SCF bundles. This is also true for FSS pallets, which are the same price as SCF pallets. The Postal Service states, "To encourage FSS preparation and destination entry, there will be a price of zero for FSS pallets brought to a DFSS."[28] In file "CAPCALC-PER-R2013-10.Rev.10.18.13.XLS," the Postal Service estimates that 13,081 pallets would have qualified for this rate of zero, "0", if it was offered in the hybrid year. Periodicals mailers would have saved $153,725 with the new FSS prices if they had been offered this in the hybrid year.[29]

- Package Services

For BPM, the Postal Service states, "FSS price categories will have the same prices as non-FSS prices at the same presorting and destination entry levels. FSS pricing incentives for BPM flats may be introduced later when more is known about the

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[27] Flats Strategy at 12.

[28] Notice at 28.

[29] Notably, in cell F167 of tab "Regular Rate" in file "CAPCALC-PER-R2013-10.Rev.10.18.13.XLS," the Postal Service has not included the introduction of the free DFSS FSS Scheme pallet as a price reduction for the 13,081 pallets that would have qualified.

FSS volumes at the different sortation and destination entry levels."[30] As detailed by the Postal Service, there will be no impact from FSS pricing in BPM.[31]

In total, FSS pricing accounts for $211,060 in estimated impact across Standard Mail, Periodicals, and BPM. In its discussion of FSS prices, the Postal Service states "For example, for mail destinating in FSS zones, carrier route preparation is of no value because it yields excessive bundles that increase bundle handling costs."[32] In FY 2013, the Postal Service will continue to offer carrier route prices to mailers in FSS zones. [33] The Postal Service, instead, has mandated that mailers prepare FSS scheme bundles, which are (primarily) 5 digit bundles. The Postal Service will provide mailers Carrier Route discounts for pieces sorted to 5 digit with the proposed prices.

2. FSS Zone Mail Preparation Requirements

As mentioned above, in Standard Mail, Periodicals, and Package Services, the Postal Service will require "previously optional" FSS preparation for all flat shaped mail pieces destinating in FSS zones. As detailed in a powerpoint attributed to the Postal Service Vice President of Network Operations, mailers will be required to combine all flat mail pieces for 5-digit FSS zones into a "single FSS sort program."[34] This means

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[30] Notice at 30.

[31] The Public Representative notes that Alaska Bypass Mail receives the highest increase of any product in Package Services. Alaska Bypass was recently de-linked from Single Piece Parcel Post Prices. The Commission should continue to evaluate the Postal Service's pricing policy to ensure that Alaska Bypass Mail is priced fairly going forward.

[32] Notice at 16.

[33] Similarly, even with the loss in value of Carrier Route presorting in FSS zones, the Postal Service is not offering 100 percent passthroughs for Carrier Route mail in Periodicals or Standard Mail. The Public Representative acknowledges that there is no official worksharing relationship between Standard Mail Flats and Carrier Route. However, mailers have expressed concern with the Standard Mail pricing signals sent by the Postal Service. See LL Bean Comments Docket No. R 2013-1. The Public Representative notes that the Postal Service expanded the price differential between Standard Mail Automation 5-Digit Flats and Standard Mail Carrier Route by .2 cents to .3 cents in Docket No. R2013-10.

[34] https://ribbs.usps.gov/periodicalsfocus/documents/tech_guides/greatlakes/sept2013meeting/WilliamsPresentation.pptx (Williams Presentation) slide 12.

mailers can no longer present Carrier Route bundles. Similar to the Full Service IMb implementation, this is a mailing preparation that may cause mailers to pay higher prices. However, there is an important distinction between the IMb mandate and the FSS mandate. The Postal Service regularly revises Carrier Route sort schemes to adjust for route redesigns. As such, mailers are currently required to update carrier route schemes every 90 days.[35] The Commission should carefully review the implementation of the FSS scheme mandate to ensure that mailers will not have to pay higher rates due to the change in mail preparation requirements. The fact that mailers will be able to pay Carrier Route prices for FSS scheme bundles is also significant in this determination, because it is unclear how a Carrier Route bundle (which is sorted past the 5 digit level) materially differs from an FSS scheme bundle. It appears that the primary change is the requirement that the mailer create "uniform bundle height for (the) entire scheme pool."[36]

D. Metered Mail is a Step in the Right Direction.

The major classification change in Docket No. R2013-10 is the introduction of a separate single piece metered mail price. Nearly all posts in developed countries offer metered mail prices.[37]

1. A good idea for consumers and the Postal Service.

The Public Representative supports the introduction of the metered mail price. Consumers will benefit from lower prices. Studies have demonstrated that postal operators benefit from the postage meter as a marketing channel.[38]

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[35] See http://pe.usps.com/archive/html/dmmarchive1209/A030.htm. section 3.1.a.

[36] Williams Presentation, slide 12.

[37] *See* Tim Walsh: Strategic Marketing and the Postage Meter Payment Channel.

[38] http://www.deutschepost.de/dpag?xmlFile=link1023360_1023351&lang=de_EN , http://www.neopostinc.com/News/Press-Releases/~/media/Press%20Releases/2012/Neopost_PR_1012_FedEx.ashx

2. The APWU Concern is Understandable.

On October 21, 2013, the APWU submitted comments that stated the metered mail price was "in violation of Sections 3622(e)(2) and 3622(e)(4)(C) of the Act."[39] On October 25, 2013, Pitney Bowes filed a Response to the APWU stating, "In FY 2012, the unit mail processing cost for First-Class Mail Single-Piece Metered Letters (11.57 cents) was 2.14 cents less than the unit mail processing cost of First-Class Mail Single-Piece Letters as a whole (13.71 cents)."[40] The Public Representative is uncertain whether there is a worksharing relationship between Single-Piece Letters and Single-Piece Metered Letters. The market differences have not been thoroughly documented in this docket, and Market Dominant Price Adjustments are designed to be limited reviews. The Public Representative suggests that the Commission should open a rulemaking docket to determine if Single-Piece Letters should be linked to Single-Piece Metered Letters in a worksharing relationship.

IV. CONCLUSION

The Postal Service has designed prices for First-Class, Standard, and Periodicals that disregard statutory standards. The Commission should reject these prices and provide the Postal Service the opportunity to develop a reasonable solution.

Respectfully submitted,

Kenneth E. Richardson
Public Representative for

[39] Comments of the American Postal Workers Union, AFL-CIO, October 21, 2013 at 1.

[40] Response of Pitney Bowes Inc. in Opposition to the Motion of the American Postal Workers Union, AFL-CIO to Establish A Separate Proceeding To Consider The Metered Mail Price, October 25, 2013 at 3-4.

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John P. Klingenberg
Public Representative Team for
Docket No. R2013-10

901 New York Avenue, N.W., Suite 200
Washington, DC 20268-0001
(202) 789-6859; Fax (202) 789-6891
e-mail: kenneth.e.richardson@prc.gov